REGION I
FINANCIAL TRENDS IN FEDERALLY INSURED CREDIT UNIONS
JANUARY 1, 2002 to June 30, 2002

HIGHLIGHTS

This report highlights the conditions and trends of Region I credit unions at mid-year 2002. A low interest rate environment, a downward trend in the stock market, and strong loan demand contributed to the strength of the region's credit unions. While some areas in the region experienced a declining job market and corporate downsizing, these economic weaknesses have minimally effected the region's 1251 credit unions. Strong asset growth has weakened net worth ratios, but earnings and delinquency are showing signs of improvement.

The region continues to provide opportunities for credit unions to expand membership and those credit unions are providing necessary services to thousands more members than in 2001.

The conditions and trends include the following:

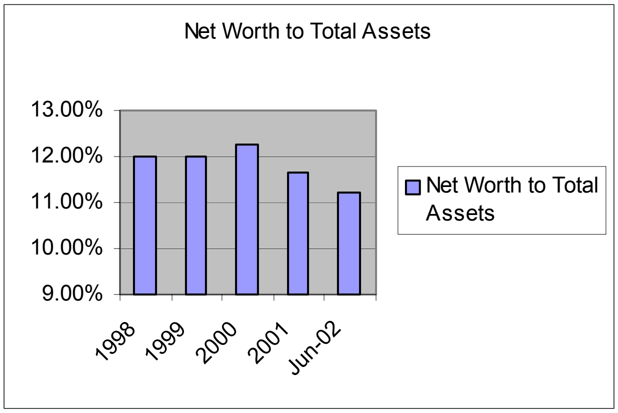
- Assets increased to $62.6 billion
- Loans increased to $37 billion. Loans represent 61.2 percent of total assets;
- Investments increased to $17.9 billion. Investments represent 28.6 percent of total assets;
- Shares increased to $53.7 billion, with non-member deposits declining to $76.3 million;
- Net Worth represents 11.23 percent of total assets. This is a decline from 11.65 percent in 2001. The decline is mainly due to asset growth exceeding net worth growth. Actual dollar volume net worth grew by $306 million;
- Delinquency declined by $35 million to .62 percent of total loans;
- Profitability, showed a notable increase of the return on average assets ratio from 0.96 percent in 2001 to the current 1.04 percent;
- Liquidity remains positive, while borrowings increased slightly from 2.20 percent of total shares and capital in 2001 to 2.27 percent currently;
- Field of membership expansions totaled 804 resulting in a total potential membership for the affected credit unions of 3.8 million members; and
- Approval of requests to add underserved areas totaled 15 with a total added population of 421,284.

The following table recaps percentage growth rates for key balance sheet components, annualized:

Category	*% Growth*
Assets	17.00
Loans	9.74
Investments	30.35
Shares	17.97
Net Worth	9.16

NET WORTH

The region's net worth ratio of 11.23 percent remains higher than the national average of 10.58 percent. While the region's credit unions' net worth grew by 9.16 percent, strong asset growth of 17 percent diluted the effect of otherwise strong net worth accumulation.



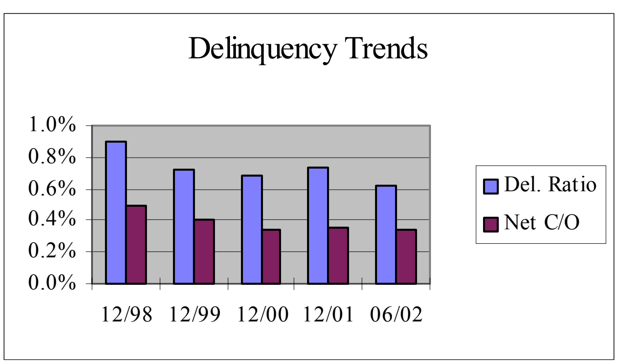
Due to the instability of the stock market and consumers' low return on market investments, there has been a flight to safety, significantly increasing credit union share accounts. This has diluted net worth ratios over the last two years.

ASSET QUALITY

Total loans increased by 9.74 percent, up from 2001's growth rate of 8.64 percent. Investments continued to increase significantly; annualized investment growth for 2002 is 30.35 percent. As share growth outpaces loan growth, the credit union's reliance on investment opportunities grows.

The delinquent loan and net charge-off levels declined slightly, despite negative economic trends and loan volume increases.

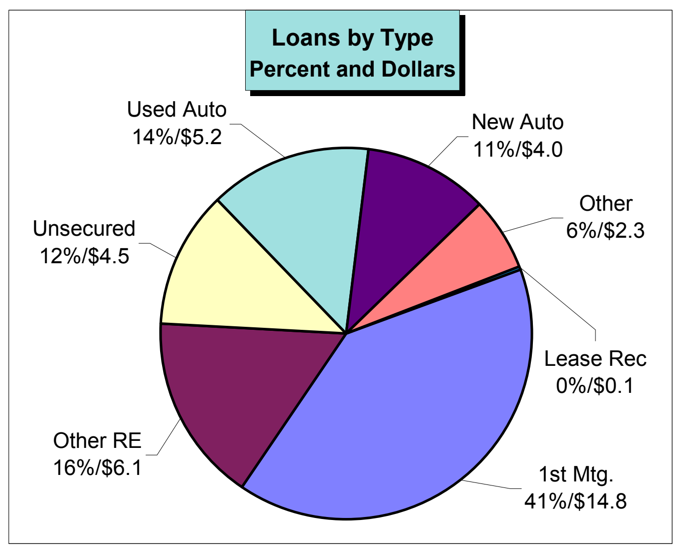
The delinquent loans to total loans ratio declined to 0.62 percent, compared to the national ratio of 0.72 percent. The region's ratio of net charge offs to average loans also declined slightly to 0.34 percent, and is below the national ratio of 0.50 percent.



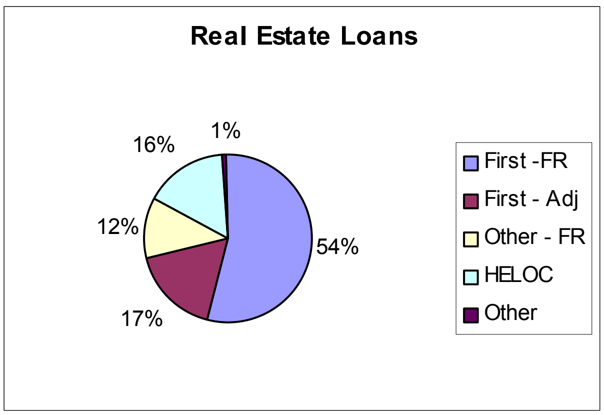
The amount of loans subject to bankruptcy declined by $2 million, or 4.2 percent. The national growth trend in personal bankruptcy filings between 2001 and June 30, 2002, was 10 percent. The number of bankruptcy filings by Region I credit union members is slightly lower at 9%. Despite the rise in filings, the dollar amount declined as indicated.

Loan Trends: First mortgage real estate loans increased 7.7 percent to $14.8 billion. Other real estate loans also grew by 9.03 percent to $6.1 billion. New auto loans increased by 1.1 percent, despite auto dealers' aggressive low or zero percentage rate financing promotions during 2002. This reverses the decline in new auto lending between 2000 and 2001. Used auto loans increased 6.2 percent. Leases Receivable increased 39.9 percent to $120 million reflecting that credit union members are seeking alternative methods of financing vehicles and credit unions are trying to fill those needs.

Below is the breakdown of loans by type:



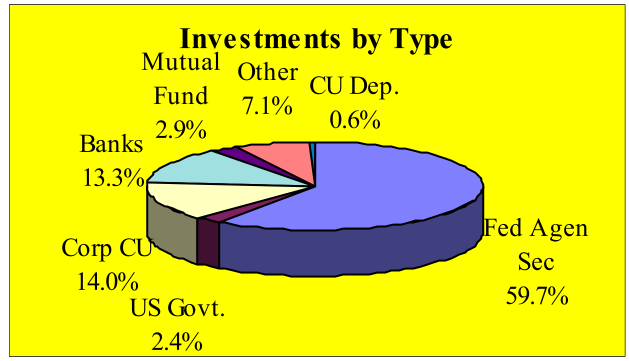
Real estate loans of $21 billion comprise 56.5 percent of all loans in the region, compared to 42.3 percent nationally. The largest growth came in first mortgages, which now total $14.8 billion. Continued low fixed interest rates and a booming housing market in most of the region fueled this increase. The amount of first mortgage real estate loans sold on the secondary market showed a marked increase of 42 percent to $2.25 billion. Nationally, real estate loans sold increased by 15 percent. The significant increase in loans sold provides further evidence of member demand for real estate loans. Credit unions are selling real estate loans to ensure liquidity to meet member loan demands and to reduce the interest rate risk of holding larger, long-term, low-interest rate real estate loans in the portfolio. While some credit unions are managing their interest rate risk, others continue to hold large portfolios of these low-interest rate mortgages and will experience earnings and net worth declines if interest rates begin to rise.



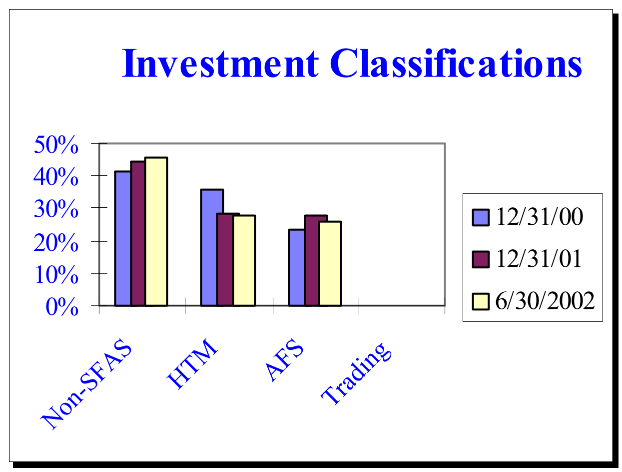
Member Business Loans (MBLs) increased from $1.25 billion in 2001 to $1.3 billion currently. Indirect lending is currently $1.1 billion.[1]

Investment Trends: Investments increased by 13.3 percent to $17.9 billion. While most investment types increased, the largest increase in dollars - $1.1 billion - was in Federal Agency Securities. Investments in Banks/S&Ls, and corporate credit unions increased $366 million and $386 million respectively. Other investments increased by $248 million.

US Government Obligations, again as in 2001, showed only a small increase. Mutual fund investments declined by just over $20 million, reflecting the trend to divest of more volatile investments. The difference in yield is not providing enough incentive for credit unions to leave these funds at the mercy of the market.



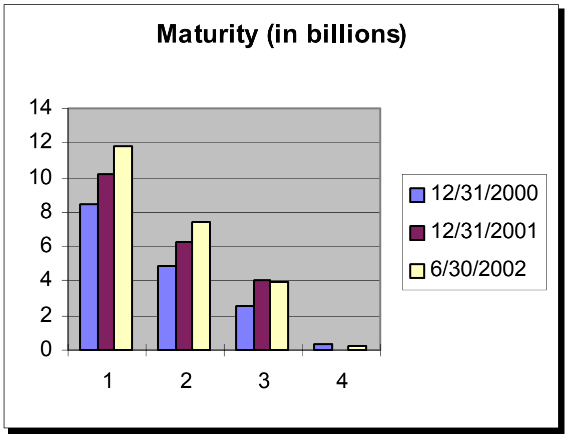
The trading category of investments decreased by 4 percent, to $7.2 million. Historically, trading investments are an insignificant percentage of total investment dollars. Held to maturity investments increased 14.2 percent to $6.5 billion, while available for sales investments increased 9.2 percent to $6.1 billion. Non-SFAS[2] investments exhibited a significant increase of 19.5 percent to $10.7 billion.



Short-term (less than one year) investments increased 15.9 percent to $11.8 million. Investments 1-3 years and 3-10 years increased 27.4 and 11.2 percent respectively to $7.4 billion and $3.9 billion. Investments greater than ten years declined by 21.4 percent to $267 million

[1] Indirect lending information was not gathered before 2002.

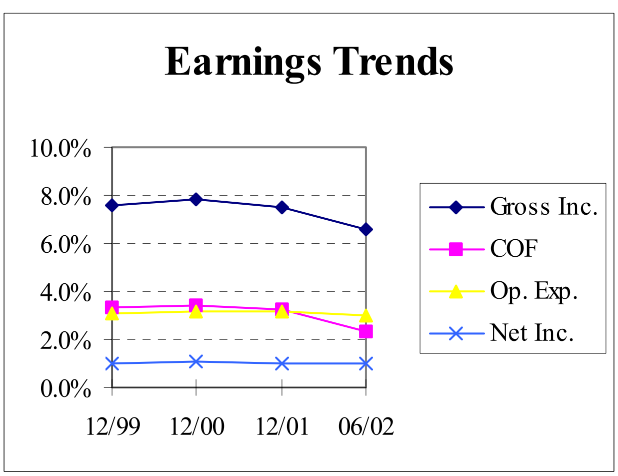
[2] Includes cash and cash equivalents.



EARNINGS

Region I credit unions continue to report a strong return on average assets (ROA) of 1.04 percent. This is an increase from 2001's 0.96 percent and is equal to the national ratio.

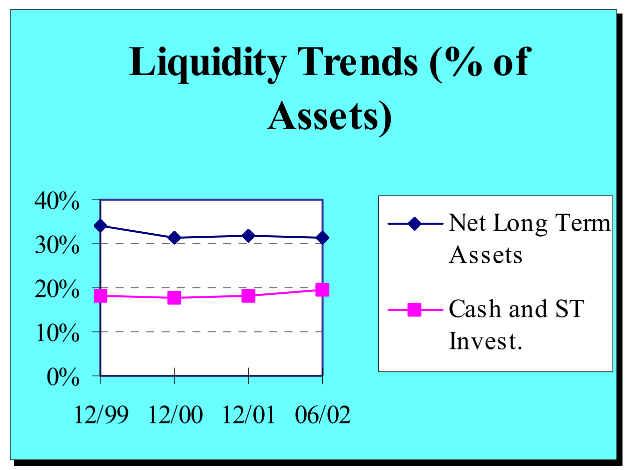
The primary contributor to the ROA increase is a significant decline in cost of funds from 3.21 percent of average assets in 2001 to an annualized cost of funds of 2.33 percent as of June 30, 2002. Despite an increase in the dollar amount of shares of 9 percent for the first six months of 2002 (not annualized) from $49.2 billion to $53.7 billion, dividend dollars declined from $1.5 billion to $1.2 billion – a decline of 20.0 percent.



The yield on assets declined from 7.51 percent in 2001 to 6.56 percent while cost of funds and operating expenses declined to 2.33 percent and 2.99 percent respectively. Declining interest rates on loan and investment products negatively affected the yield on assets and will continue to do so in the current interest rate environment. However, the aforementioned cost of funds decrease and the decline in operating expenses contributed to a stronger bottom line. Operating expenses actually increased 6 percent in dollar volume but the strong increase in assets offset the expense, resulting in a lower ratio.

LIQUIDITY

The net long-term assets to total assets ratio declined slightly to 31.4 percent. Region I continues to exceed the national ratio of net long-term assets, which was 23.1 percent. This is due to the region's higher level of real estate and member business loans.



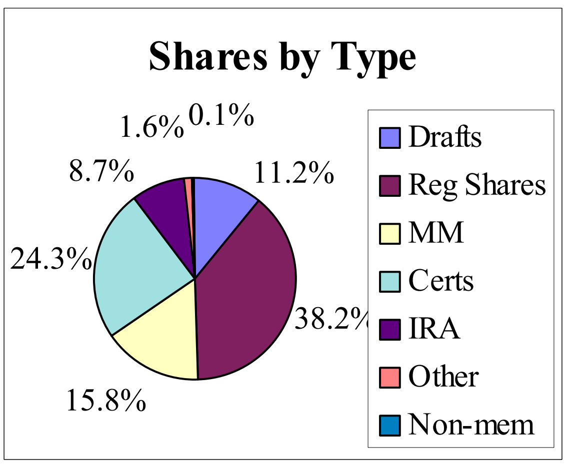
Cash plus short-term investments as a percentage of assets increased from 18.39 percent to 19.58 percent.

Shares increased by $4.4 billion to $53.7 billion. Growth in all types of share products except share certificates and non-member deposits contributed to the overall growth in shares. The largest dollar increase occurred in regular shares, which increased $2.6 billion to $21 billion. A combination of the increase in potential members due to charter expansions and the move by consumers to place more money in stable investment and savings products contributed to this increase.

Share certificates declined slightly from $13.4 billion to $13.1 billion. This is the first decline in share certificates in several years as the difference in yield between short and longer term share products are insignificant and members are choosing to remain more liquid should rates increase.

Share Trends: Below is the distribution:

Share Type	*Amount (billions)*	*% change last 6 mos.*
Drafts	$6.0	11.2%
Regular	21.0	14.5%
Money Mkt	8.5	15.6%
Certificates	13.1	-2.2%
IRA/Keogh	4.7	3.7%
Other	0.8	32.5%
Non-member	0.1	-5.3%
TOTAL	$53.7	9.0%



Borrowing Trends: Total borrowings increased 11.6 percent to $1.4 billion. The total cost of borrowing increased 7.3 percent to $56.4 million, reflecting the cost of increased borrowing.

Loan to Share Trends: The loan to asset ratio and the loan to share ratio both declined to 59.1 and 69.0 percent respectively. While loan dollar volume actually increased by $1.7 billion, both assets and shares increased at a faster rate than loans, causing these ratios to decline.

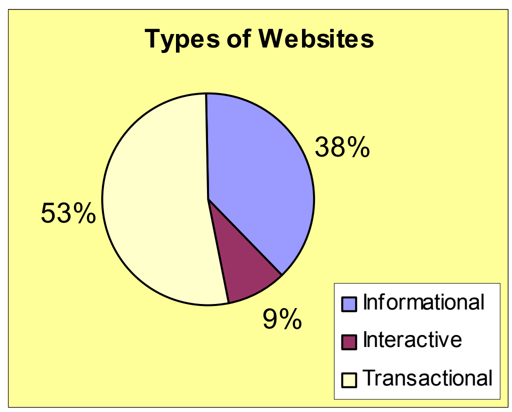
PROMPT CORRECTIVE ACTION

As of June 30, 2002, the region has 51 credit unions designated as "adequately capitalized" or "undercapitalized." The remainder of the region's credit unions are deemed "well capitalized."

PCA Category	*Category Criteria*	*No. of CUs*	*Assets*
Adequately Capitalized	6.0 percent to 6.99 percent	37	$632.7 million
Under Capitalized	4.0 percent to 5.99 percent	8	$58.7 million
Significantly Undercapitalized	2.0 percent to 3.99 percent	2	$16.4 million
Critically Undercapitalized	< 2.0 percent	4	$4.5 million
Total		51	$712.3

E-COMMERCE

Over 47 percent of the credit unions in the region have websites. This is an increase of 6 percent from 2001. Of the 586 credit unions reporting websites, the following is a breakdown by type of website and percentage:



FIELD OF MEMBERSHIP

Region I continues to assist credit unions in providing credit union services to a growing number of consumers through field of membership expansions. The region approved 804 field of membership expansion requests in 2002. This resulted in potential members at these credit unions of 3.8 million members.

The region approved 6 community charter conversions, with 14 pending. Of 21 community charter expansion requests received, the region approved 6 with the remainder pending. Fifteen mergers were approved in 2002 and one state to federal charter conversion occurred. In 2002, there were three involuntary liquidations.

There were 4 approved requests to add underserved areas in 2002 resulting in a total population of 421,284. There are 11 applications pending.

SEPTEMBER 11, 2001

On September 11, 2001, the nation experienced a great tragedy with the terrorist destruction of the World Trade Center (WTC) and the Pentagon and the crashing of four commercial airplanes. This resulted in a devastating loss of life to thousands of individuals.

Region I tracked the performance of 13 credit unions that had the potential to be effected by the September 11th tragedy. The total assets of these credit unions exceed $2 billion. This includes taxi, airline and municipal employee credit unions. The potential for these credit unions to be negatively affected by the tragedy was significant, however, it appears they have weathered the effects of the WTC disaster successfully. None of the credit unions reported any major operational or financial problems and delinquency and charge offs are under control.

Region I did a survey of 17 credit unions closest to the WTC and determined that all were satisfied with the Region's response to the disaster and recommended minimal changes to our disaster program as it relates to responding to credit unions.

REGFLEX

As of June 30, 2002, there were 625 federally chartered credit unions in Region I eligible for RegFlex.

SUMMARY

While the national and regional economies are lackluster, the region's credit unions continue to demonstrate strong financial results. Net worth declines are due to strong asset growth, which is not a major problem if managed properly. Most other trends are positive. The low interest rate environment, while negatively affecting credit unions' gross income position, is positively affecting credit unions' net profitability. When interest rates begin to rise, some credit unions will face a narrower interest margin if they hold long-term fixed rate loan products. Proper asset/liability management will help provide for continued financial success through the interest rate cycle.